

# IT Services

Despite BFSI revival, margin to experience flat to negative in H2

## Summary

Decent quarterly results were seen for companies in our coverage universe majorly headed by revival in BFSI vertical (average +2%/+5%YoY QoQ/YoY in large cap & avg +16%/+14% QoQ/YoY in mid-cap), driven by Europe (average +4%/5% QoQ/YoY) especially for large caps. There is a limited upside potential left of winning large deal wins (transformational projects) in H2 but cost take out projects likely to continue in similar pattern. Elongated decision making cycle, softness in various verticals (such as manufacturing & retail) coupled with political uncertainty indicates demand environment to remain cautious in the near term. Despite modest revenue growth in H1, higher utilization rate, modest sub-con cost, lower discretion, lower G&A expenses and lower discretionary cost help expand the margin for large caps by ~50bps (average) whereas midcap witnessed contraction in margin by ~65bps (average) within our large cap/midcap universe. We expect no positive surprise in terms of growth in H2FY25 due to upcoming furloughs and softness in non-BFSI segment.

## Key Highlights

- Revenue outlook:** There has been an upward revision for revenue guidance (includes upper band/lower band of the guidance) for Infosys (3.75%- 4.5%) & for Wipro (+0% - 2%) whereas other large caps remained stable to positive. On the other hand, Coforge and Cyient has guided a high single digit revenue growth. The upward revision in guidance was mainly due to stable order bookings and revival in BFSI coupled with anticipated faster deal conversion cycles.
- Margin outlook:** Due to wage hikes, focus on deals with high ROI deals from clients (transformational deals), margin dilutive large deals (large cost take out deals), slow conversion of deals coupled with furloughs in the upcoming quarters would lead to margin contraction for majority of large/mid cap companies within our coverage.

## India IT Sector: Valuation/Rating

Companies	Rating	CMP (Rs)	TP (Rs)	Upside (%)	Mkt Cap (Rs bn)	P/E (x)	
						FY24E	FY25E
TCS	HOLD	4,149	4,389	6	15,181	30	27
Infosys	HOLD	1,868	1,995	7	7,756	29	26
HCL Tech.	HOLD	1,865	1,950	5	5,075	29	27
Wipro	HOLD	568	553	-3	2,984	25	23
Tech Mah.	HOLD	1,657	1,778	7	1,651	36	27
LTIMindtree	HOLD	5,951	7,000	18	1,778	37	30
Coforge	BUY	8,070	7,815	-3	540	52	41
Cyient	HOLD	1,790	2,018	13	203	28	23
Birlasoft	BUY	550	690	25	156	24	21
Zensar Tech.	BUY	697	760	9	165	25	22
Newgen	HOLD	1,198	1,450	21	178	55	44
Sonata	HOLD	573	701	22	164	33	23

Source: IDBICAPITAL Research, Company; CMP as on 13-11-2024

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- Growth:** BFSI played key role in driving the growth momentum across Tier 1 IT companies even Europe/RoW played better among Geos. Midcap IT companies witnessed a broad-based growth due to financial services and Hi-Tech and lower exposure in Manufacturing, Retail and Healthcare during the quarter.
- Margin:** Remained stable at the operating level as most of the companies used multiple levers which includes utilization (high), modest sub-con cost (enough headroom left), attrition (lower than recent past), lower G&A and discretionary cost (lower than usual). We expect a material uptick in realization in discretionary spend in FY26 on the back of higher transformational deal wins.
- TCV:** Recovery in BFSI is the only positive in H1FY25. Lack of mega deals (unlike FY24) and weak deal momentum in non-BFSI coupled with furloughs (similar to Q3FY24) may lead to sluggish growth recovery in H2FY25.
- Headcount:** Total addition remained muted for the Indian IT companies after a continuous decline for the last six quarters. Due to continued weakness in transformational deal wins, Indian IT companies anticipate a weak near-term growth which leads to stringent hiring policy.
- Sub-contracting cost:** Remained at an optimized level in Q2 post decline for a few quarters in the recent past. We believe that the companies would use further to improve margin in the near term.
- Utilization:** At this moment, there is hardly any headroom left for the utilization rate for most of the Indian IT companies (IT- Services) to navigate the margin.
- Attrition rate:** IT companies have successfully lowered the attrition rate which will have a positive impact on discretionary cost due to continued upskilling/cross-skilling of the employees.

### Exhibit 1: Upgraded revenue guidance

Companies	Q2FY25	Q1FY25
Infosys	3.75% - 4.5%	3% - 4%
Wipro	2% - 0%	(1)% - +1%
HCL Tech	3.5% - 5%	3% - 5%

Source: IDBICAPITAL, Company

### Exhibit 2: Upgraded EBIT margin guidance

Companies	Q2FY25	Q1FY25
Infosys	20- 22%	20-22%
HCL Tech	18%-19%	18%-19%
LTIM	17-18%	17-18%
Coforge*	18% (Cigniti)	
Zensar	15-16%	15-16%
Cyient	16% (Q4FY25)	

Source: IDBICAPITAL Research, Company (EBITDA margin)

## Exhibit 3: Q2FY25 performance of IT companies

Companies	US\$	QoQ (%)	YoY (%)	Deal wins	QoQ (%)	YoY (%)
TCS	7,670	2.2	6.4	8,600	3.6	-23.2
Infosys	4,894	3.8	3.7	2,400	-41.5	-68.8
Wipro	2,660	0.9	-3.4	3,600	9.1	-5.3
HCL Tech	3,445	2.4	6.8	2,218	13.2	-44.0
Tech Mahindra	1,589	1.9	2.2	603	12.9	-5.8
LTIM	1,127	2.8	4.8	1,300	-7.1	na
Coforge	369	26.8	32.8	516	64.3	64.9
Birlasoft	163	2.6	3.2	136	-15.0	-49.8
Zensar	156	1.2	4.0	202	31.0	3.6
Cyient	221	9.9	2.7	157	-14.2	-14.7
Sonata	85	2.3	4.6	na	na	na
Newgen	43	14.8	23.2	na	na	na

Source: IDBICAPITAL Research, Company

## Exhibit 4: Management commentary

Companies	Q2FY25			
	Revenue Growth	Margin	Headcount	Utilisation
<b>TCS</b>			Hiring will be calibrated as per the deal wins & market execution	
<b>Infosys</b>	Volume growth would come from the net hiring going forward large deal pipeline and wins, recovery in BFS in US (major market) and higher utilization (due to project maximus)		Hiring will be calibrated as per the deal wins & market execution	Comfortable utilisation range is 84-85%, no headroom for improvement
<b>Wipro</b>		Narrow range		Management said to continue to sustain the utilisation levels
<b>HCL Tech</b>	lower end in the range of guidance, pick-up in demand environment		Still some headroom for hiring, but looking for specific skill set	
<b>Tech Mahindra</b>	FY25 to be better than FY24 on revenue growth and margins front.	FY25 to be better than FY24 on revenue growth and margins front.		
<b>LTIM</b>		Margin guidance is deferred by few quarters		Company is working on getting the utilization rate down, once growth comes back utilization would come down and there would be headcount addition too
<b>Cyient</b>	high single digit, Management was confident of robust recovery in H2 on the back of strong order book. Also, stated connectivity deals has started to ramp up and would be fully ramped by Q3		Company wants to sustain current utilization rate and do not see more headroom for headcount addition	
<b>Coforge</b>	higher order bookings and emphasized on broad based growth (both organically & in-organically)	guided 18% EBITDA margin for Cigniti standalone business till Q4 which would improve consolidated margins as well.		
<b>Birlasoft</b>		Narrow band		

Source: IDBICAPITAL Research, Company

## Exhibit 5: Vertical-wise commentary

Companies	BFSI	Other Verticals
<b>TCS</b>	Financial institution in US looks at sustaining growth momentum, do see large transformational deal. Saw growth in NA, Europe. Within the segment capital market has been weak, insurance has grown.	Manufacturing is seeing good traction; however, it has supply chain and labour issues which are short lived. Within manufacturing, SDVs seems to be long term trend. Retail side is investing more in technology and transformational projects. In technology, cyber-security is getting good investments, still the deals remain cost efficient and clients are cautious in capex investment in the segment. Good recovery is seen in Banking and which is sustainable. In travel, aerospace and automobile is having supply chain and labour issues. Consumer business continues to face challenges in the near term & Life-science segment in UK specifically.
<b>Infosys</b>	Financial services in the US continues to see discretionary spend increase in capital markets, mortgages, cards and payments with traction in large outsourcing and transformation opportunities	Retail segment was impacted due to continued political uncertainty in America. EU is affected by high interest rates scenario which is influencing spending patterns causing to cost optimizing initiatives for clients. Within E&U, strong growth seen is in energy sector (more opptys in cloud programme, etc). In manufacturing, growth was strong which was partially offset by Europe acquisition. Management saw discretionary uptick in BFSI segment which would convert into large deal wins drives growth in coming quarters.
<b>Wipro</b>	Momentum is fairly strong in BFSI, It will be impacted by furloughs, management is optimistic around spend in BFSI especially in US	
<b>HCL Tech</b>	Financial services looks better in terms of discretionary spend	Manufacturing remained soft during the quarter, however, good traction can be seen in automotive sub-segment. Energy & utilities also remained soft, still new opptys can be seen for cost takeout & vendor consolidation deals. In few sectors there has been delay in conversion of deals which leads to lower revenue.
<b>Tech M</b>	BFSI sector that the spend level seem to be slightly elevated compared to about a year ago. growth in BFSI would be led by sub-segments like insurance, asset management.	Manufacturing is seen to be conservative in near term due to softness in auto sector, Rate cuts would give cushion to communication segment to be higher on their budgets.
<b>LTIM</b>	Seeing significant traction in BFSI, deal wins are cost take out deals	Travel & Tech would do better than other verticals as client specific would resolve in coming quarter. Technology more focus on AI & Gen AI infusion with cost take-out deals precisely
<b>Coforge</b>	BFS clients are boosting investments in Gen AI to reduce cost by optimizing, Financial crime prevention- sub segment are showing positive traction, open banking initiatives in US, digital operations in European union. Mortgage segment would have gradual resurgence in near term.	

Companies	BFSI	Vertical
<b>Birlasoft</b>	BFSI will do good	Life-science would still show softness for few more quarters, however expects rebound post the softness; Manufacturing to rebound with already seen green shoots. From service-lines, management expects traction in ERP, infra services and AI/ gen AI and good opportunities are seen in oracle, SAP.
<b>Zensar</b>	BFSI vertical, demand environment seems to be the same (till US elections), however, within the segment Insurance is getting good traction & in BFS payments sub-segment is the key driver for growth	Management and clients seems to be cautious in TMT vertical and do not see near term recovery. Manufacturing & retail likely to have good traction.
<b>Cyient</b>		Management expects growth in new growth areas vertical led by Healthcare, life-science, automotive & semiconductor sub-segments. Sustainability vertical to show softness in Q2 of the full year going forward.
<b>Sonata</b>		the growth would be led by Healthcare & banking as strong traction is seen in the segments and headwinds could be seen due to slowdown in Retail & manufacturing (Large deals getting delayed and conversion rate is slow). The slowdown in the segments would persist in the coming quarters too and no material uptick could be seen in next 2-3quarters.
<b>Newgen</b>	Management does not see any slowdown in BFSI segment in India and sees more traction in Insurance & govt.	In terms of vertical services; trade finance, digital engineering, supply chain solutions have good traction.

Source: IDBICAPITAL Research, Company

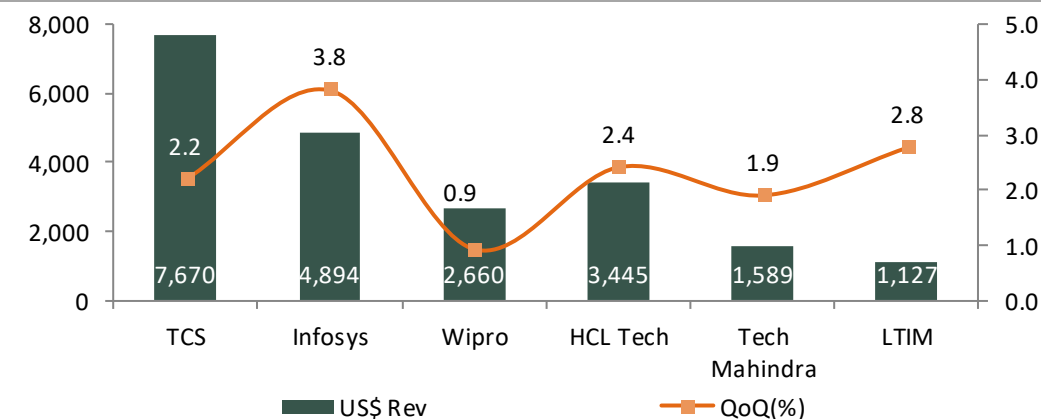
## Exhibit 6: Deal wins

Deal wins - Q2FY25						
Company	Vertical	Region	Type	Work	Duration	Company
TCS	Retail	North America	Contract	IT infrastructure & cyber-security	3yrs	Follett Higher Education
		Middle east	Collaboration	ESG Solutions		TÜV SÜD
	Retail	Across countries	Extended partnership	Customer experience	5yrs	Primark
	Infra	UK	Partnership	Digital Transformation		Mansfield Building Society
	Retail	Philippines	Partnership	Digitised IT operations	2yrs	MacDonald's
Infosys		Europe	Collaboration	Transform core business system	5Yrs	Sector Alarm
	Health	US	Contract	Developing new system		Delaware department of labour
	Connectivity	Denmark	Collaboration	Transform & modernise IT system		TDC Net
	BFS	UK	Collaboration	Digital transformation of business operations		Metro bank
	Retail	US	Collaboration	IT transformation & service delivery		Sally Beauty Holdings, Inc.
Wipro	Auto	Germany	Contract	IT infrastructure - hybrid cloud solution		Mahle
	Retail	UK	Contract	Transform & modernise IT infrastructure		JLP
LTIM	BFS	Africa	Contract extension	Digital transformation		Absa Bank
	Technology	Germany	Contract	IT modernization		Exyte

Source: IDBICAPITAL Research, Company

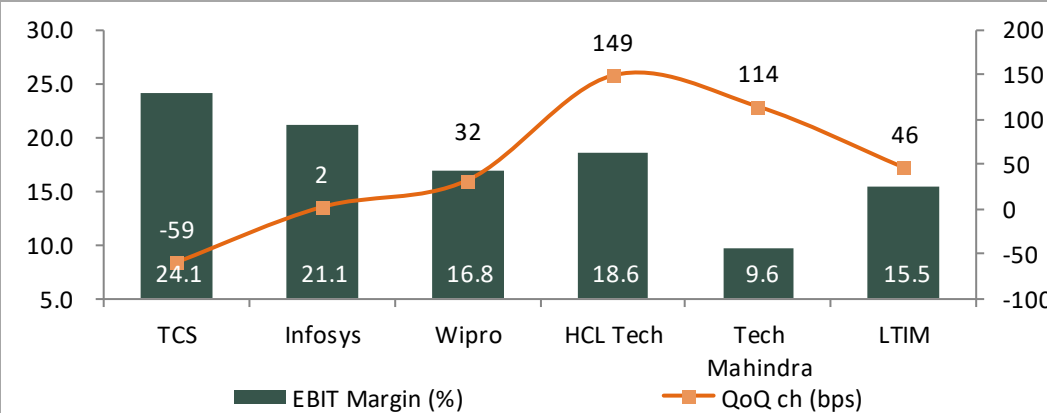
Key charts: Large Cap companies under our coverage

Exhibit 7: Revenue



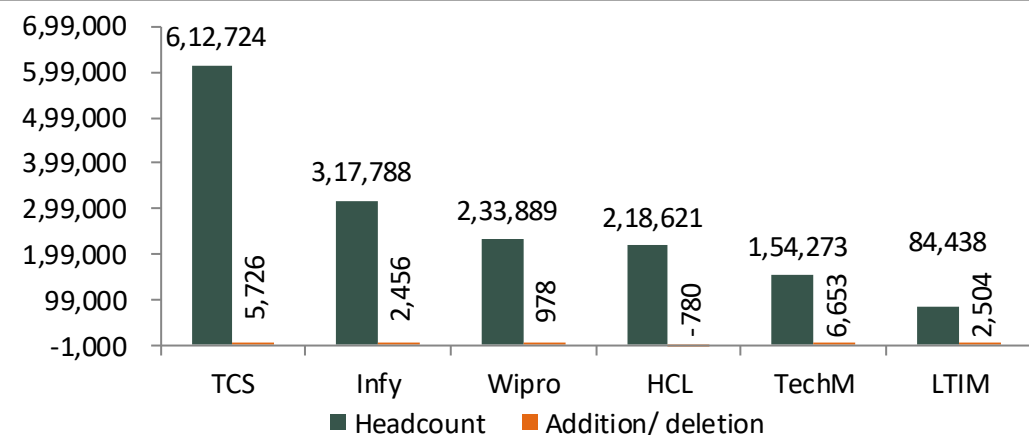
Source : IDBICAPITAL research Company

Exhibit 8: EBIT Margin



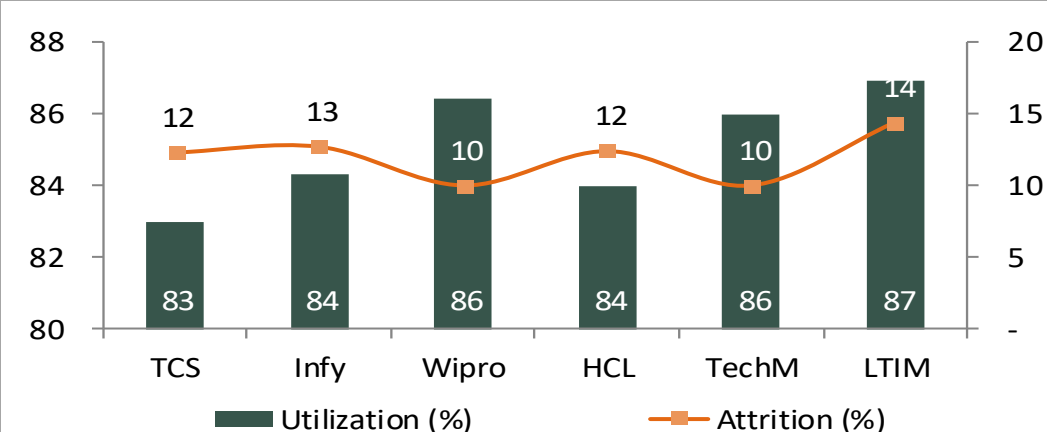
Source : IDBICAPITAL research, Company

Exhibit 9: Recovery in hiring



Source : IDBICAPITAL research, Company

Exhibit 10: Utilization at peak

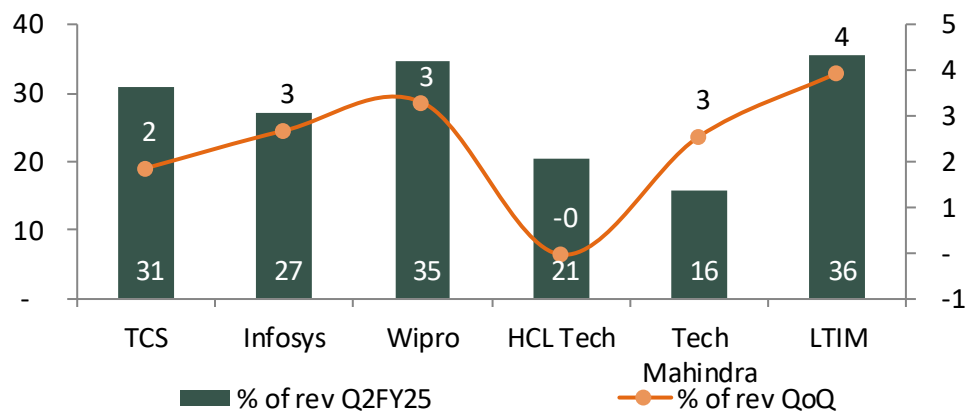


Source : IDBICAPITAL research, Company



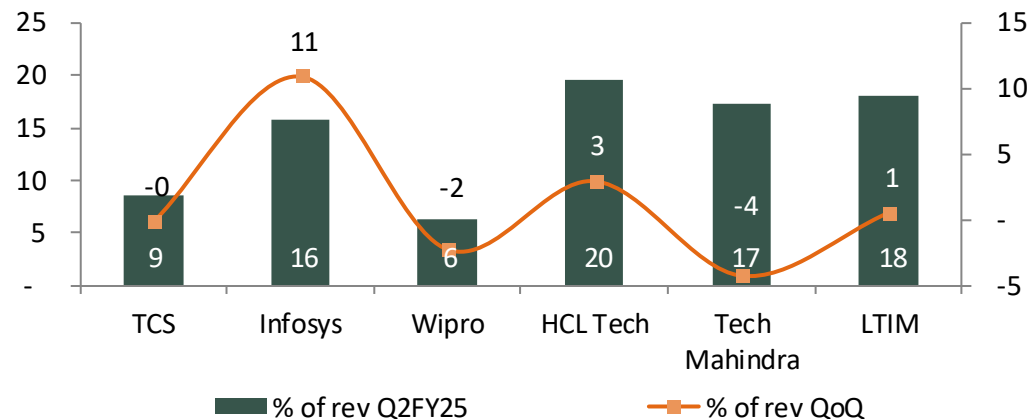
Verticals: BFSI showed strong growth and manufacturing remained soft

Exhibit 11: BFSI



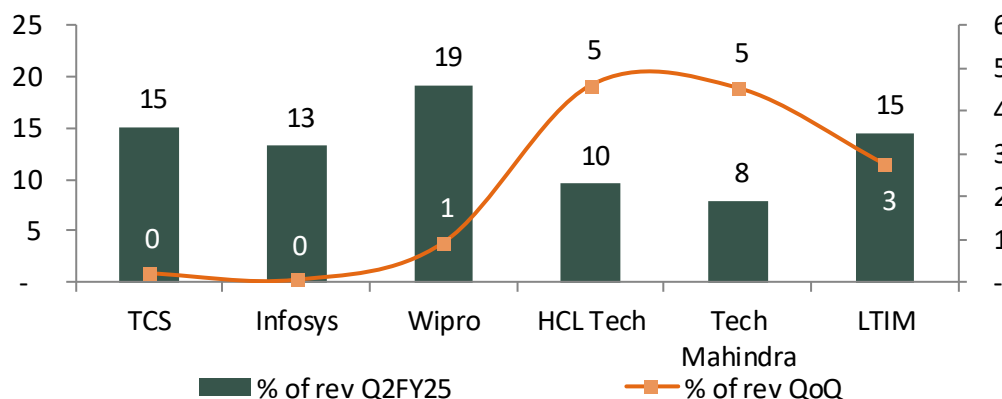
Source : IDBICAPITAL research, Company

Exhibit 12: Manufacturing



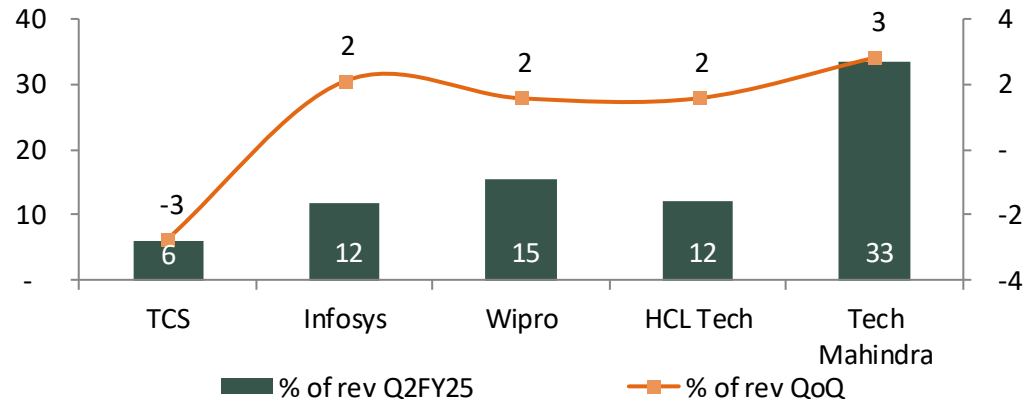
Source : IDBICAPITAL research, Company

Exhibit 13: Retail



Source : IDBICAPITAL research, Company

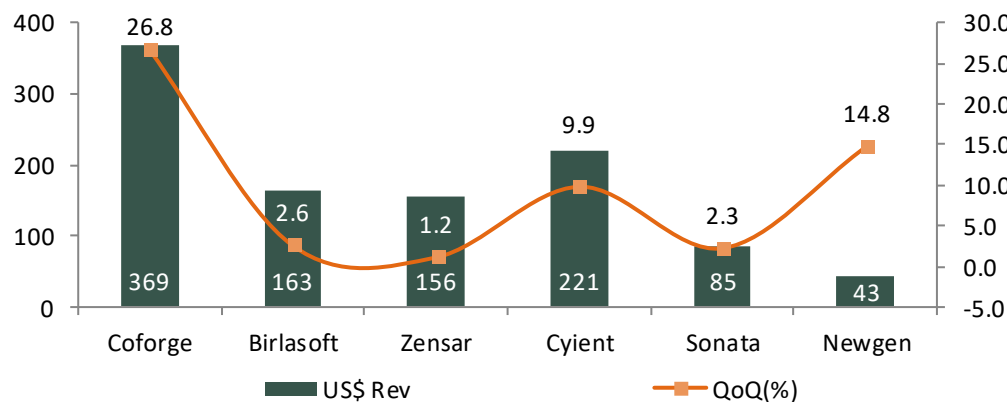
Exhibit 14: Communication



Source : IDBICAPITAL research, Company

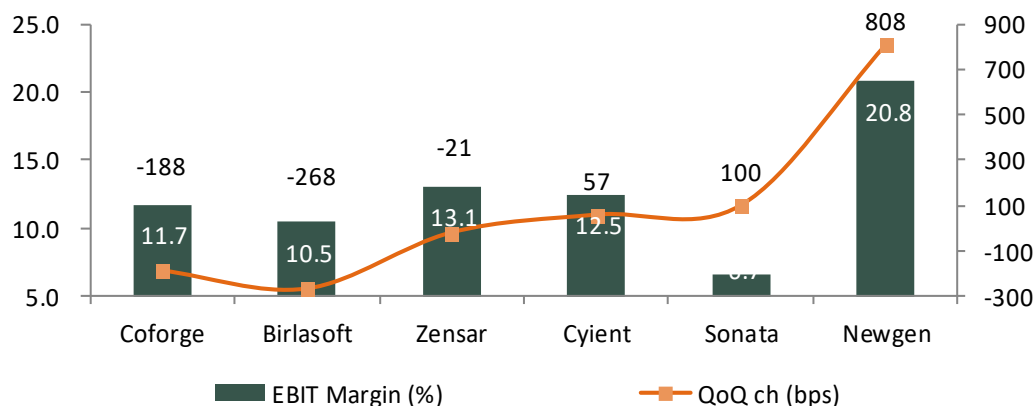
Key charts: Mid Cap IT companies under our coverage

Exhibit 15: Revenue



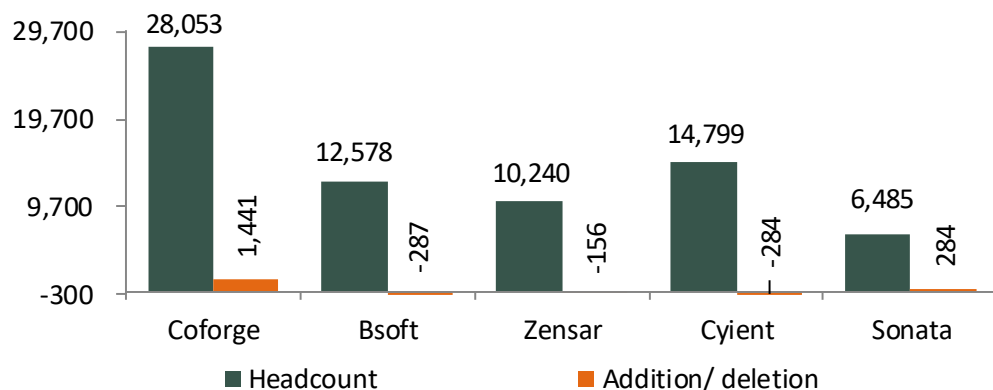
Source : IDBICAPITAL research, Company

Exhibit 16: Margin



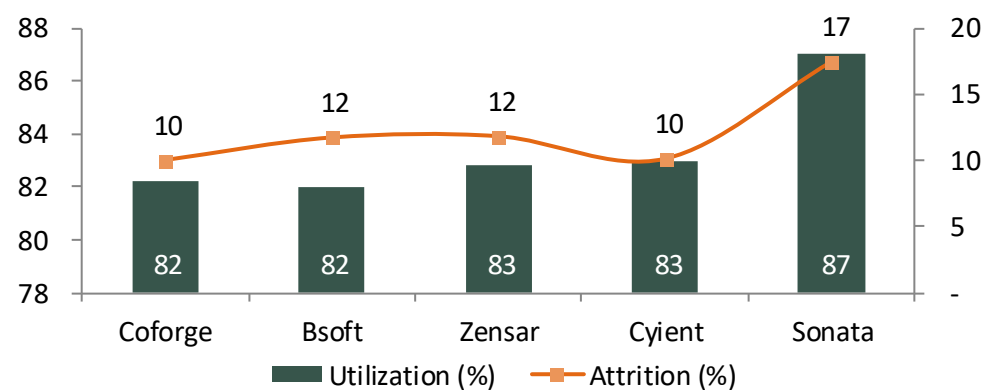
Source : IDBICAPITAL research, Company

Exhibit 17: Headroom/ net addition



Source : IDBICAPITAL research, Company

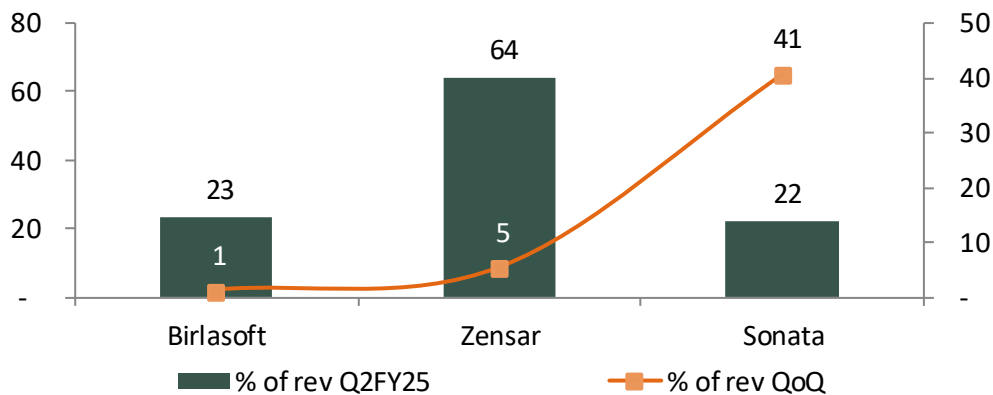
Exhibit 18: Utilization



Source : IDBICAPITAL research, Company

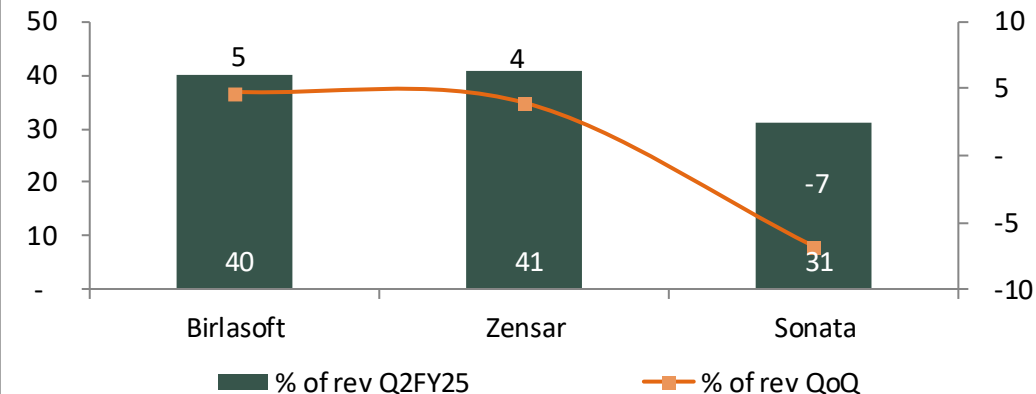
Verticals: Except BFSI all other verticals showed softness

Exhibit 19: BFSI



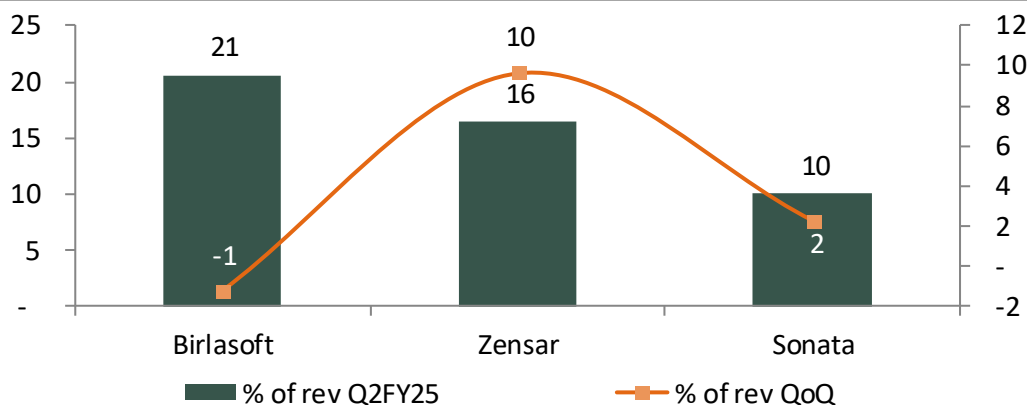
Source : IDBICAPITAL research, Company, \*sonata has quant acquisition effect

Exhibit 20: Manufacturing



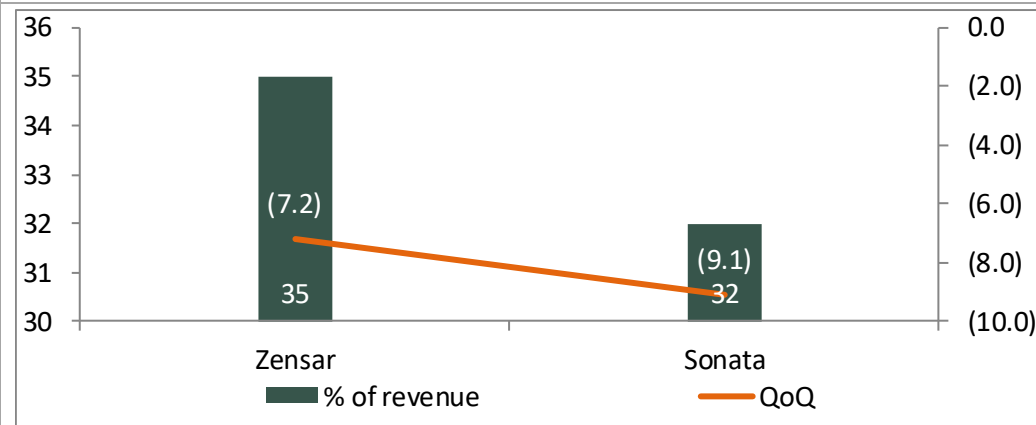
Source : IDBICAPITAL research, Company

Exhibit 21: Healthcare & life-science (H&LS)



Source : IDBICAPITAL research, Company

Exhibit 22: Hi-Tech



Source : IDBICAPITAL research, Company

Exhibit 23: Q2FY25 Margin performance of IT companies

Companies	Gross Margin (%)	QoQ ch (bps)	YoY ch (bps)	EBIT Margin (%)	QoQ ch (bps)	YoY ch (bps)
TCS	37.8	-165	-184	24.1	-59	-19
Infosys	30.5	-35	-15	21.1	2	-12
Wipro	30.5	28	118	16.8	32	214
HCL Tech	30.0	51	-87	18.6	149	8
Tech Mahindra	24.4	140	672	9.6	114	606
LTIM	28.2	51	-87	15.5	46	-52
Coforge	32.4	-55	-6	11.7	-188	-12
Birlasoft	39.4	-337	-383	10.5	-268	-371
Zensar	28.1	-229	-371	13.1	-21	-255
Cyient	30.6	-118	-140	12.5	57	-185
Sonata	16.9	219	-210	6.7	100	-192
Newgen	48.9	416	228	20.8	808	359

Source: IDBICAPITAL research, company

**Exhibit 24: Revenue estimates for IT companies**

Coverage Revenues (US\$)	Growth YoY %						
	FY23	FY24	FY25E	FY26E	FY24E	FY25E	FY26E
TCS	27,927	29,080	31,010	33,892	4.1	6.6	9.3
Infosys	18,212	18,562	19,397	21,214	1.9	4.5	9.4
Wipro	11,272	10,865	10,773	11,547	-3.6	-0.8	7.2
HCL Tech	12,586	13,270	13,737	14,720	5.4	3.5	7.2
Tech Mahindra	6,607	6,277	6,377	6,924	-5.0	1.6	8.6
LTIM	4,106	4,279	4,567	5,132	4.2	6.7	12.4
Coforge	1,002	1,119	1,389	1,613	11.7	24.2	16.1
Birlasoft	595	637	666	752	7.1	4.5	13.0
Zensar	604	592	631	703	-2.0	6.5	11.5
Cyient	746	863	885	1,004	15.6	2.5	13.5
Sonata	241	324	349	421	34.3	8.0	20.5
Newgen	117	149	187	234	27.7	25.0	25.1

Source: IDBICAPITAL research, company

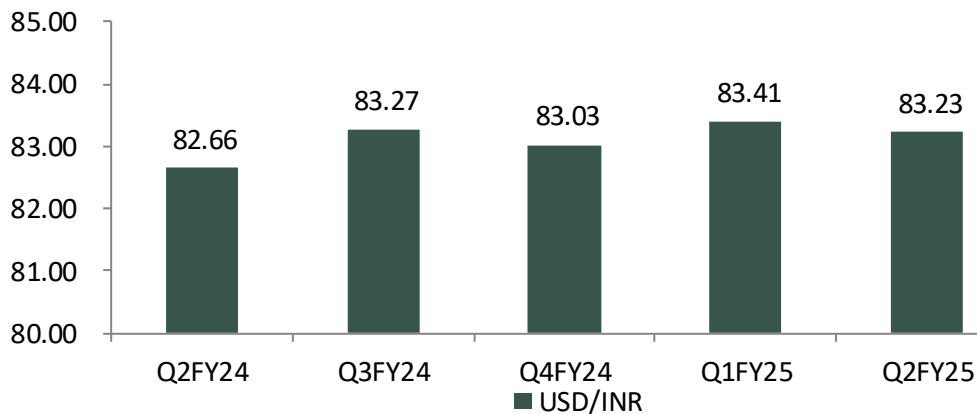
**Exhibit 25: EBIT margin estimates of IT companies**

Companies	FY23	FY24	FY25E	FY26E	Change (bps) FY24-26
TCS	24.1	24.2	24.8	25.3	105
Infosys	21.1	20.7	20.9	21.3	67
Wipro	14.9	15.1	16.0	16.4	124
HCL Tech	18.2	18.2	19.0	19.8	155
Tech Mahindra	11.4	5.8	9.4	12.0	626
LTIM	16.2	15.7	15.6	16.5	85
Coforge	14.3	12.9	13.1	13.8	91
Birlasoft	12.3	14.2	13.6	14.3	7
Zensar	7.6	15.1	14.1	14.5	-52
Cyient	12.4	14.4	13.0	14.3	-14
Sonata	25.1	23.4	18.8	20.5	-294
Newgen	19.3	20.9	21.5	22.3	139

Source: IDBICAPITAL research, company

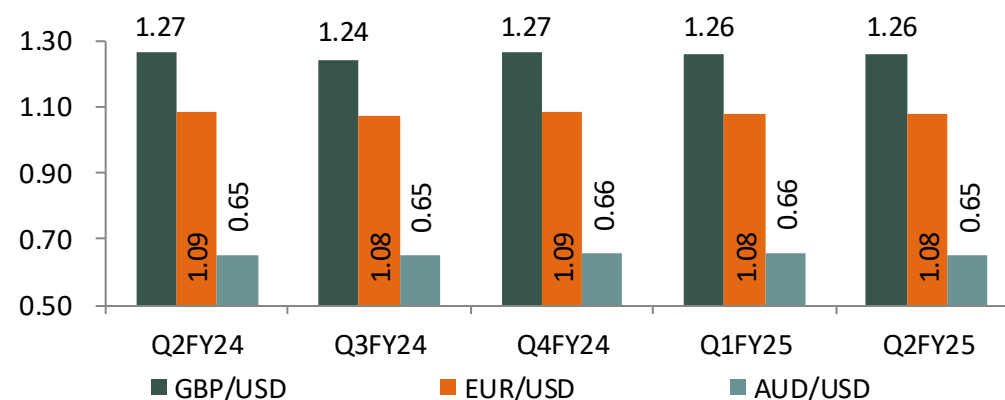
## Currency & stock performance

**Exhibit 26: USD/INR quarterly performance**



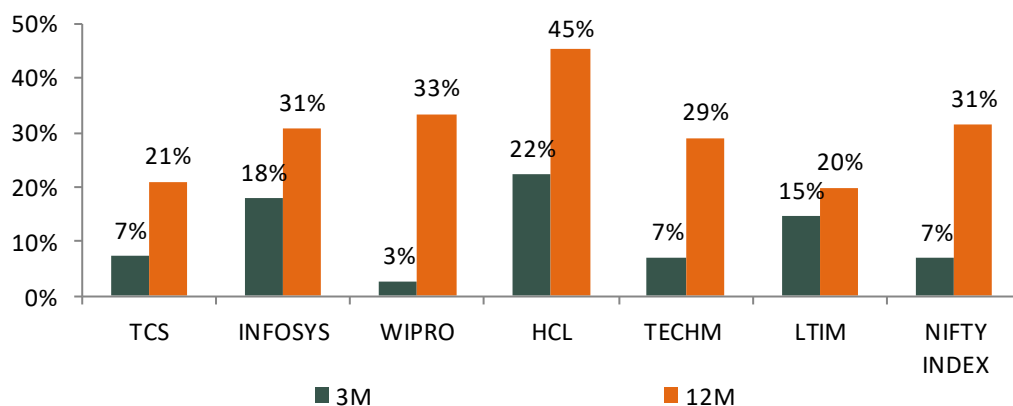
Source : IDBICAPITAL research, Company, \* Average of quarters

**Exhibit 27: Quarterly performance**



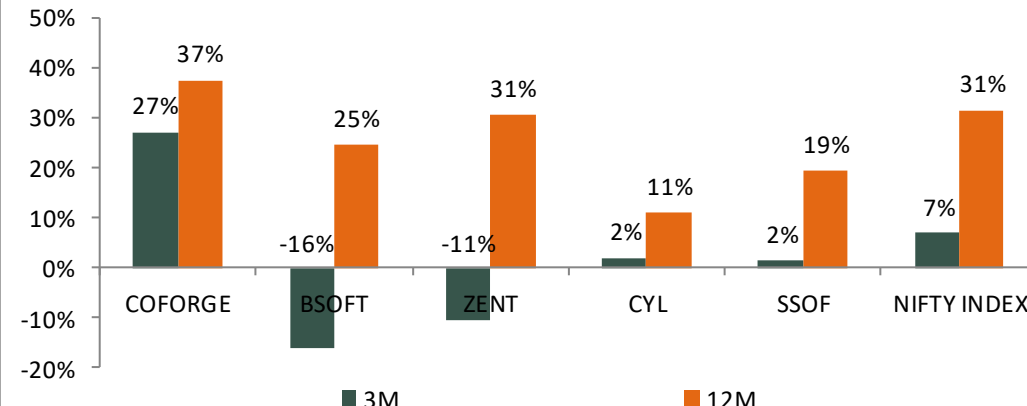
Source : IDBICAPITAL research, Company

**Exhibit 28: Large-cap performance with Index**



Source : IDBICAPITAL research, Company

**Exhibit 29: Mid-cap performance with Index**



Source : IDBICAPITAL research, Company

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